

WACO COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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WACO Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Mark Hotchkiss	President	2008
Mark Burnham	Vice President	2007
Jeff Temple	Board Member	2006
JoEllen Jepson	Board Member	2007
Shari Janecek	Board Member	2008
Board of Education (After September 2006 Election)		
Mark Hotchkiss	President	2008
Mark Burnham	Vice President	2007
JoEllen Jepson	Board Member	2007
Shari Janecek	Board Member	2008
Tim Graber	Board Member	2009
School Officials		
Darrell Smith	Superintendent	2007
Carrie Coble	Board Secretary/ Business Manager	2007
Robert Meyer	District Treasurer	2007
Ron Peeler	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
WACO Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the WACO Community School District, Wayland, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the WACO Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2008 on our consideration of the WACO Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We

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have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise WACO Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMANN & JOHNSON, P.C.

February 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

WACO Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Negotiated salary increases were greater than new money brought into the system through the school budget formula.
- General Fund revenues increased from \$5,016,650 in fiscal 2006 to \$5,285,589 in fiscal 2007, while General Fund expenditures increased from \$5,015,747 in fiscal 2006 to \$5,332,349 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from of \$309,485 in fiscal 2006 to a balance of \$262,725 in fiscal 2007 a 15.11% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state source revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of WACO Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report WACO Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which WACO Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
WACO Community School District Annual Financial Report

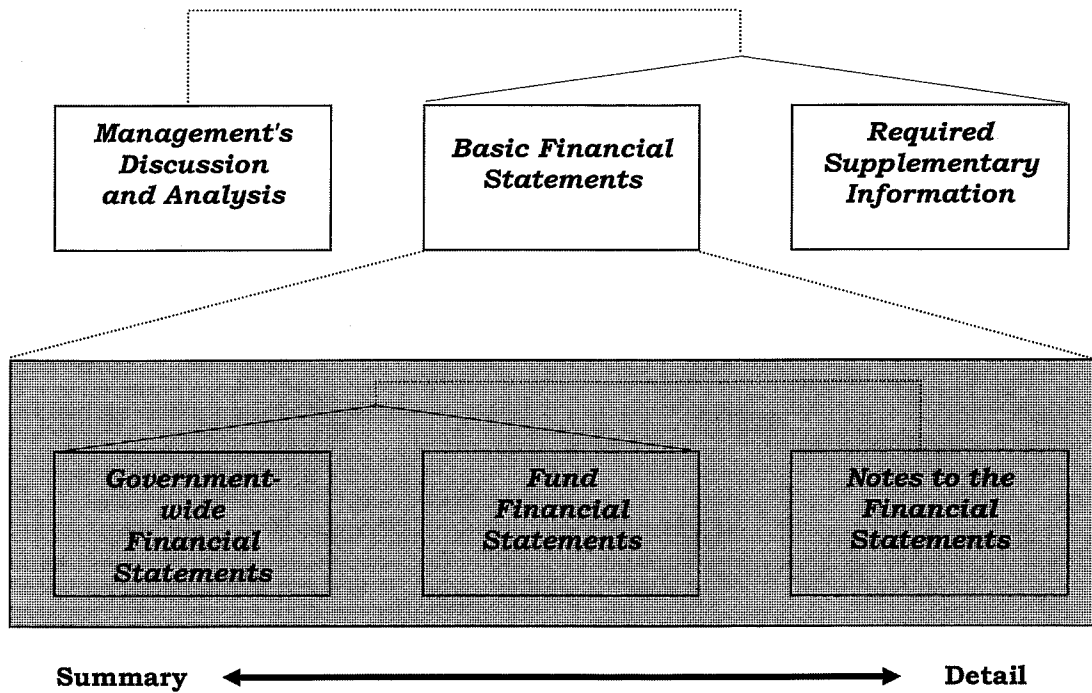


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency Fund.

- a. Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenues collected and expenditures paid for groups whose sole purpose is to benefit the District.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 3,020,409	2,959,476	7,119	15,177	3,027,528	2,974,653	1.78%
Capital assets	6,755,660	6,459,719	28,296	22,935	6,783,956	6,482,654	4.65%
Total assets	9,776,069	9,419,195	35,415	38,112	9,811,484	9,457,307	3.75%
Long-term obligations	3,935,677	3,742,589	0	0	3,935,677	3,742,589	5.16%
Other liabilities	2,318,690	2,269,944	3,091	2,210	2,321,781	2,272,154	2.18%
Total liabilities	6,254,367	6,012,533	3,091	2,210	6,257,458	6,014,743	4.04%
Net assets:							
Invested in capital assets, net of related debt	2,977,616	3,019,544	28,296	22,935	3,005,912	3,042,479	-1.20%
Restricted	396,096	195,811	0	0	396,096	195,811	102.28%
Unrestricted	147,990	191,307	4,028	12,967	152,018	204,274	-25.58%
Total net assets	\$ 3,521,702	3,406,662	32,324	35,902	3,554,026	3,442,564	3.24%

The District's combined net assets increased by 3.24%, or \$111,462, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$200,285, or 102.28% over the prior year. The increase is primarily a result of the increase in the Capital Projects fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$52,256, or 25.58%. This decrease in unrestricted net assets was primarily a result of the District General Fund balance decreasing during the year.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 and 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 750,019	735,924	119,212	112,631	869,231	848,555	2.44%
Operating grants and contributions and restricted interest	628,981	536,919	109,168	106,525	738,149	643,444	14.72%
General revenues:							
Property tax	2,141,047	2,089,530	0	0	2,141,047	2,089,530	2.47%
Local option sales and services tax	302,056	290,149	0	0	302,056	290,149	4.10%
Unrestricted state grants	2,282,898	2,197,291	0	0	2,282,898	2,197,291	3.90%
Other	80,428	76,072	440	239	80,868	76,311	5.97%
Transfers	(39,513)	(53,948)	39,513	53,948	0	0	0.00%
Total revenues	6,145,916	5,871,937	268,333	273,343	6,414,249	6,145,280	4.38%
Program expenses:							
Governmental activities:							
Instructional	3,614,982	3,631,541	0	0	3,614,982	3,631,541	-0.46%
Support services	1,901,263	1,573,820	0	0	1,901,263	1,573,820	20.81%
Non-instructional programs	0	0	271,911	270,150	271,911	270,150	0.65%
Other expenses	514,631	516,190	0	0	514,631	516,190	-0.30%
Total expenses	6,030,876	5,721,551	271,911	270,150	6,302,787	5,991,701	5.19%
Changes in net assets	115,040	150,386	(3,578)	3,193	111,462	153,579	27.42%
Net assets beginning of year	3,406,662	3,256,276	35,902	32,709	3,442,564	3,288,985	4.67%
Net assets end of year	\$ 3,521,702	3,406,662	32,324	35,902	3,554,026	3,442,564	3.24%

In fiscal 2007, property tax, local option sales and services tax and unrestricted state grants account for 76.90% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 85.11% of the revenue from business type activities.

The District's total revenues and transfers were approximately \$6.4 million of which \$6.1 million was for governmental activities and less than \$0.3 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.38% increase in revenues, net transfers and a 5.19% increase in expenses. The increase in expenses related to increase in the negotiated salary and benefits, as well as increases in utilities and transportation costs.

Governmental Activities

Revenues, net transfers for governmental activities were \$6,145,916 and expenses were \$6,030,876.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,614,982	3,631,541	-0.46%	2,419,712	2,530,557	-4.38%
Support services	1,901,263	1,573,820	20.81%	1,898,210	1,568,289	21.04%
Other expenses	514,631	516,190	-0.30%	333,954	349,862	-4.55%
Totals	<u>\$ 6,030,876</u>	<u>5,721,551</u>	<u>20.05%</u>	<u>4,651,876</u>	<u>4,448,708</u>	<u>4.57%</u>

- The cost financed by users of the District's programs was \$750,019.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$628,981.
- The net cost of governmental activities was financed with \$2,141,047 in property tax, \$302,056 in local option sales and services tax, \$2,282,898 in unrestricted state grants, \$31,539 in interest income and \$48,889 in other general revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$268,333 and expenses were \$271,911. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the WACO Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$745,618, above last year's ending fund balances of \$714,118. However, the primary reason for the increase was increase in the Capital Projects Fund from issuance of \$510,000 in revenue bonds.

Governmental Fund Highlights

- The District's decrease in General Fund financial position is the product of many factors. An increase in the local tax and state aid during the year resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures ensuring the financial position of the District to decrease.
- The Management Levy Fund balance decreased from \$118,562 in 2006, to \$96,531 in 2007, due to increased expenditures in both early retiree incentives and property insurance costs.
- The Capital Projects Fund balance increased from \$144,501 in 2006, to \$211,982 in 2007, due to the issuance of \$510,000 in revenue bonds and increased local option sales and services tax revenues.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$35,902 at June 30, 2006 to \$32,324 at June 30, 2007, representing a decrease of 9.97%.

BUDGETARY HIGHLIGHTS

Over the course of the year, WACO Community School District amended its annual budget one time for \$751,503 to reflect additional expenditures associated with support services and non-instructional programs functional areas.

The District's revenues were \$7,866 less than budgeted revenues, a variance of .12%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$6.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 4.65% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$284,270.

The original cost of the District's capital assets was \$9,680,115. Governmental funds account for \$9,555,211 with the remainder of \$124,904 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$13,860 at June 30, 2006, compared to \$430,324 reported at June 30, 2007. This increase resulted from the addition of the parking lot paving to the capital assets listing financed by \$510,000 in revenue bonds.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 85,850	85,850	0	0	85,850	85,850	0.00%
Buildings	5,873,758	6,097,322	0	0	5,873,758	6,097,322	-3.30%
Land improvements	430,324	13,860	0	0	430,324	13,860	4.24%
Machinery and equipment	365,728	262,687	28,296	22,935	394,024	285,622	37.95%
Total	\$ 6,755,660	6,459,719	28,296	22,935	6,783,956	6,482,654	4.65%

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$3,935,677 in general obligation and other long-term debt outstanding. This represents an increase of 5.16% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$3,165,000 at June 30, 2007.

The District had total outstanding revenue bonds payable of \$510,000 at June 30, 2007.

The District had total outstanding bus lease payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$103,044 at June 30, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$147,452 at June 30, 2007.

The District also had total outstanding compensated absences payable from the General Fund of \$10,181 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2007	2006	Change
General obligation bonds	\$ 3,165,000	3,390,000	-6.64%
Revenue bonds	510,000	0	100.00%
Bus leases	103,044	118,974	-13.39%
Early retirement	147,452	222,638	-33.77%
Compensated absences	10,181	10,977	-7.25%
Total	<u>\$ 3,935,677</u>	<u>3,742,589</u>	<u>5.16%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Carrie Coble, Board Secretary/Business Manager, WACO Community School District, 706 N. Pearl St., Wayland, Iowa, 52654.

BASIC FINANCIAL STATEMENTS

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 477,954	203	478,157
Receivables:			
Property tax:			
Delinquent	44,402	0	44,402
Succeeding year	2,211,406	0	2,211,406
Accounts	4,376	0	4,376
Due from other governments	282,271	0	282,271
Inventories	0	6,916	6,916
Capital assets, net of accumulated depreciation (Note 6)	6,755,660	28,296	6,783,956
TOTAL ASSETS	9,776,069	35,415	9,811,484
LIABILITIES			
Accounts payable	63,385	132	63,517
Interest payable	43,899	0	43,899
Deferred revenue:			
Succeeding year property tax	2,211,406	0	2,211,406
Unearned revenue	0	2,959	2,959
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	235,000	0	235,000
Revenue bond payable	100,000	0	100,000
Bus lease payable	103,044	0	103,044
Early retirement	27,346	0	27,346
Compensated absences	10,181	0	10,181
Portion due after one year:			
General obligation bonds payable	2,930,000	0	2,930,000
Revenue bond payable	410,000	0	410,000
Early retirement	120,106	0	120,106
TOTAL LIABILITIES	6,254,367	3,091	6,257,458
NET ASSETS			
Invested in capital assets, net of related debt	2,977,616	28,296	3,005,912
Restricted for:			
Debt service	78,742	0	78,742
Talented and gifted	1,625	0	1,625
Beginning teacher mentoring program	357	0	357
Salary improvement program	131	0	131
Professional development	3,424	0	3,424
Market factor	4,197	0	4,197
Capital projects	211,982	0	211,982
Physical plant and equipment levy	33,795	0	33,795
Other special revenue purposes	61,843	0	61,843
Unrestricted	147,990	4,028	152,018
TOTAL NET ASSETS	\$ 3,521,702	32,324	3,554,026

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants, Contributions and Restricted Interest		Govern- mental Activities	Business- Type Activities
Expenses					Total
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 2,225,398	394,917	406,580	(1,423,901)	0 (1,423,901)
Special instruction	758,374	185,863	30,409	(542,102)	0 (542,102)
Other instruction	631,210	168,290	9,211	(453,709)	0 (453,709)
	3,614,982	749,070	446,200	(2,419,712)	0 (2,419,712)
Support services:					
Student services	88,836	0	0	(88,836)	0 (88,836)
Instructional staff services	133,911	0	0	(133,911)	0 (133,911)
Administration services	736,704	0	0	(736,704)	0 (736,704)
Operation and maintenance of plant services	520,133	0	0	(520,133)	0 (520,133)
Transportation services	421,679	949	2,104	(418,626)	0 (418,626)
	1,901,263	949	2,104	(1,898,210)	0 (1,898,210)
Other expenditures:					
Long-term debt interest	151,733	0	0	(151,733)	0 (151,733)
AEA flowthrough	180,677	0	180,677	0	0 0
Depreciation(unallocated)*	182,221	0	0	(182,221)	0 (182,221)
	514,631	0	180,677	(333,954)	0 (333,954)
Total governmental activities	6,030,876	750,019	628,981	(4,651,876)	0 (4,651,876)
Business-Type activities:					
Non-instructional programs:					
Nutrition services	271,911	119,212	109,168	0 (43,531)	(43,531)
Total business-type activities	271,911	119,212	109,168	0 (43,531)	(43,531)
Total	\$ 6,302,787	869,231	738,149	(4,651,876)	(43,531) (4,695,407)
General Revenues and Transfers:					
General Revenues:					
Property tax levied for:					
General purposes			\$ 1,805,316	0	1,805,316
Debt services			298,992	0	298,992
Capital outlay			36,739	0	36,739
Local option sales and services tax			302,056	0	302,056
Unrestricted state grants			2,282,898	0	2,282,898
Unrestricted investment earnings			31,539	440	31,979
Other general revenues			48,889	0	48,889
Transfers			(39,513)	39,513	0
Total general revenues and transfers			4,766,916	39,953	4,806,869
Changes in net assets			115,040	(3,578)	111,462
Net assets beginning of year			3,406,662	35,902	3,442,564
Net assets end of year			\$ 3,521,702	32,324	3,554,026

* This amount excludes the depreciation that is included in the direct expense of various programs.
SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Manage- ment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 53,465	95,179	159,099	170,211	477,954
Receivables:					
Property tax:					
Delinquent	36,115	1,352	0	6,935	44,402
Succeeding year	1,783,261	95,000	0	333,145	2,211,406
Interfund	3,726	0	0	0	3,726
Accounts	2,559	0	0	1,817	4,376
Due from other governments	220,412	0	61,859	0	282,271
TOTAL ASSETS	\$ 2,099,538	191,531	220,958	512,108	3,024,135
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 0	0	0	3,726	3,726
Accounts payable	53,552	0	8,976	857	63,385
Deferred revenue:					
Succeeding year property tax	1,783,261	95,000	0	333,145	2,211,406
Total liabilities	1,836,813	95,000	8,976	337,728	2,278,517
Fund balances:					
Reserved for:					
Debt service	0	0	0	78,742	78,742
Talanted and gifted	1,625	0	0	0	1,625
Beginning teacher mentoring program	357	0	0	0	357
Salary improvement program	131	0	0	0	131
Professional development	3,424	0	0	0	3,424
Market factor	4,197	0	0	0	4,197
Unreserved:					
Undesignated	252,991	96,531	211,982	95,638	657,142
Total fund balances	262,725	96,531	211,982	174,380	745,618
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,099,538	191,531	220,958	512,108	3,024,135

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 745,618
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,755,660
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(43,899)
Long-term liabilities, including bonds payable, early retirement and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,935,677)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 3,521,702</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Management Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,740,157	65,159	302,056	335,731	2,443,103
Tuition	561,972	0	0	0	561,972
Other	79,783	10,663	10,319	177,581	278,346
Intermediate sources	5,452	0	0	0	5,452
State sources	2,688,842	0	0	0	2,688,842
Federal sources	207,714	0	0	0	207,714
Total revenues	5,283,920	75,822	312,375	513,312	6,185,429
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,298,212	2,372	0	0	2,300,584
Special instruction	758,374	0	0	0	758,374
Other instruction	468,598	0	0	162,612	631,210
	3,525,184	2,372	0	162,612	3,690,168
Support services:					
Student services	88,836	0	0	0	88,836
Instructional staff services	133,911	0	0	0	133,911
Administration services	681,116	57,628	0	0	738,744
Operation and maintenance of plant services	433,564	24,105	0	0	457,669
Transportation services	249,548	13,748	93,132	0	356,428
	1,586,975	95,481	93,132	0	1,775,588
Other expenditures:					
Facilities acquisitions	0	0	601,351	4,951	606,302
Long-term debt:					
Principal	0	0	0	240,930	240,930
Interest and fiscal charges	0	0	0	132,420	132,420
AEA flowthrough	180,677	0	0	0	180,677
	180,677	0	601,351	378,301	1,160,329
Total expenditures	5,292,836	97,853	694,483	540,913	6,626,085
Deficiency of revenues under expenditures	(8,916)	(22,031)	(382,108)	(27,601)	(440,656)
Other financing sources(uses):					
Proceeds from the disposal of property	1,669	0	0	0	1,669
Issuance of revenue bonds	0	0	510,000	0	510,000
Transfer in	0	0	0	82,064	82,064
Transfer out	(39,513)	0	(60,411)	(21,653)	(121,577)
Total other financing sources(uses)	(37,844)	0	449,589	60,411	472,156
Net change in fund balances	(46,760)	(22,031)	67,481	32,810	31,500
Fund balance beginning of year	309,485	118,562	144,501	141,570	714,118
Fund balance end of year	\$ 262,725	96,531	211,982	174,380	745,618

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 31,500

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay and gain on disposal of capital assets exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 476,947	
Depreciation expense	(282,584)	
Gain on disposal of capital assets	<u>101,578</u>	295,941

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issued exceeded repayments, as follows:

Issued	\$ (510,000)	
Repaid	240,930	(269,070)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(19,313)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ 75,186	
Compensated Absences	<u>796</u>	<u>75,982</u>

Changes in net assets of governmental activities (page 14) \$ 115,040

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 203
Inventories	6,916
Capital assets, net of accumulated depreciation(Note 6)	28,296
TOTAL ASSETS	<u>35,415</u>
LIABILITIES	
Accounts payable	132
Unearned revenues	2,959
TOTAL LIABILITES	<u>3,091</u>
NET ASSETS	
Invested in capital assets	28,296
Unrestricted	4,028
TOTAL NET ASSETS	<u>\$ 32,324</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 119,212
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	78,554
Benefits	43,515
Services	6,572
Supplies	141,584
Depreciation	1,686
TOTAL OPERATING EXPENSES	<u>271,911</u>
OPERATING LOSS	<u>(152,699)</u>
NON-OPERATING REVENUES:	
Interest income	440
State sources	3,282
Federal sources	105,886
TOTAL NON-OPERATING REVENUES	<u>109,608</u>
Change in net assets before other financing sources	(43,091)
OTHER FINANCING SOURCES	
Transfer in	<u>39,513</u>
Change in net assets	(3,578)
Net assets at beginning of year	<u>35,902</u>
Net assets end of year	<u>\$ 32,324</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 119,212
Cash received from miscellaneous operating activities	749
Cash payments to employees for services	(122,069)
Cash payments to suppliers for goods or services	(144,936)
Net cash used in operating activities	<u>(147,044)</u>
Cash flows from non-capital financing activities:	
Transfer from General Fund	39,513
State grants received	3,282
Federal grants received	101,032
Net cash provided by non-capital financing activities	<u>143,827</u>
Cash flows from investing activities:	
Interest on investments	440
Net cash provided by investing activities	<u>440</u>
Cash flows from capital financing activities:	
Acquisition of assets	(7,047)
Net cash used in financing activities	<u>(7,047)</u>
Net decrease in cash and cash equivalents	(9,824)
Cash and cash equivalents at beginning of year	<u>10,027</u>
Cash and cash equivalents at end of year	<u>\$ 203</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (152,699)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,854
Depreciation	1,686
Increase in inventories	(1,766)
Increase in accounts payable	132
Increase in deferred revenue	749
Net cash used in operating activities	<u>\$ (147,044)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 203</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$4,854.
SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2007

	<u>Agency</u>
ASSETS	
Cash and pooled investments	<u>\$ 61,539</u>
LIABILITIES	
Due to other groups	<u>\$ 61,539</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The WACO Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Wayland, Crawfordsville, and Olds Iowa, and the predominate agricultural territory in Washington, Louisa, Jefferson and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, WACO Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The WACO Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Washington, Louisa, Jefferson and Henry County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Fund is used to account for the District's early retirement program and property insurance.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund that focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and

reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2007 balances of interfund accounts receivable or payable have been recorded.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period

or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and

instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue, Physical Plant and Equipment Levy	\$ 3,726

The General Fund is repaying the Special Revenue, Physical Plant and Equipment Levy Fund for equipment purchases less than \$500. The balance will be repaid by June 30, 2008.

(4) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Enterprise, School Nutrition	General	\$ 39,513
Debt Service	Special Revenue, Physical Plant and Equipment Levy	21,653
Debt Service	Capital Projects	60,411
Total		\$ 121,577

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,390,000	0	225,000	3,165,000	235,000
Revenue bonds	0	510,000	0	510,000	100,000
Bus leases	118,974	0	15,930	103,044	103,044
Early retirement	222,638	0	75,186	147,452	27,346
Compensated absences	10,977	10,181	10,977	10,181	10,181
Total	\$ 3,742,589	520,181	327,093	3,935,677	475,571

General Obligation Bonds

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of April 1, 2005			
		Principal	Interest	Total	
2008	3.75 %	\$ 235,000	118,422	353,422	
2009	3.75	245,000	109,610	354,610	
2010	4.00	255,000	100,422	355,422	
2011	3.35	265,000	90,223	355,223	
2012	3.45	275,000	81,345	356,345	
2013	3.55	285,000	71,857	356,857	
2014	3.65	300,000	61,740	361,740	
2015	3.75	305,000	50,790	355,790	
2016	3.85	320,000	39,353	359,353	
2017	3.95	335,000	27,033	362,033	
2018	4.00	345,000	13,800	358,800	
Total		\$ 3,165,000	764,595	3,929,595	

Revenue Bonds Payable

Details of the District's June 30, 2007 revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of August 1, 2006			
		Principal	Interest	Total	
2008	4.25 %	\$ 100,000	20,837	120,837	
2009	4.50	100,000	16,463	116,463	
2010	4.50	100,000	11,962	111,962	
2011	4.50	105,000	7,350	112,350	
2012	4.75	105,000	2,494	107,494	
Total		\$ 510,000	59,106	569,106	

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the

District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$51,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Bus Leases

During the year ended June 30, 2006, the District terminated one bus lease agreement with International and bought the bus. The remaining lease was kept with Blue Bird Body Company. Payments for the lease agreement will be paid by the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the lease agreements with Blue Bird are as follows:

Year		Bus lease of September 10, 2004		
Ending	Interest	Principal	Interest	Total
June 30,	Rate			
2008	4.81	\$ 70,604	3,396	74,000

Year		Bus lease of September 10, 2004		
Ending	Interest	Principal	Interest	Total
June 30,	Rate			
2008	4.81 %	\$ 32,440	1,561	34,001
Total		\$ 103,044	4,957	108,001

Early Retirement

The District had previously offered a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed fifteen years of continuous service to the District in order to qualify for supplemental benefits. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives for each eligible employee are on the "per diem" basis based on the current contract at the time of retirement. "Per diem" is defined as per

day pay based upon contract days and annual salary. Early retirement expenditures for the year ended June 30, 2007 totaled \$75,186.

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 85,850	0	0	85,850
Total capital assets not being depreciated	85,850	0	0	85,850
Capital assets being depreciated:				
Buildings	8,016,457	0	0	8,016,457
Land improvements	107,072	447,055	0	554,127
Machinery and equipment	951,177	29,892	82,292	898,777
Total capital assets being depreciated	9,074,706	476,947	82,292	9,469,361
Less accumulated depreciation for:				
Buildings	1,919,135	155,750	(67,814)	2,142,699
Land improvements	93,212	26,471	(4,120)	123,803
Machinery and equipment	688,490	100,363	255,804	533,049
Total accumulated depreciation	2,700,837	282,584	183,870	2,799,551
Total capital assets being depreciated, net	6,373,869	194,363	(101,578)	6,669,810
Governmental activities capital assets, net	\$ 6,459,719	194,363	(101,578)	6,755,660
Business-type activities:				
Machinery and equipment	\$ 135,779	7,047	17,922	124,904
Less accumulated depreciation	112,844	1,686	17,922	96,608
Business-type activities capital assets, net	\$ 22,935	5,361	0	28,296

Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Operation and maintenance of plant services	10,672
Transportation	89,691
	100,363
Unallocated depreciation	182,221
Total governmental activities depreciation expense	\$ 282,584
Business-type activities:	
Food services	\$ 1,686

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$176,396, \$167,742 and \$156,617 respectively, equal to the required contributions for each year.

(8) Risk Management

WACO Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$180,677 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

WACO COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,283,421	119,652	3,403,073	3,344,774	3,344,774	58,299
Intermediate sources	5,452	0	5,452	0	0	5,452
State sources	2,688,842	3,282	2,692,124	2,808,341	2,808,341	(116,217)
Federal sources	207,714	105,886	313,600	269,000	269,000	44,600
Total revenues	6,185,429	228,820	6,414,249	6,422,115	6,422,115	(7,866)
Expenditures						
Instruction	3,690,168	0	3,690,168	5,004,586	5,004,586	1,314,418
Support services	1,775,588	0	1,775,588	1,612,038	2,200,000	424,412
Non-instructional programs	0	271,911	271,911	336,459	500,000	228,089
Other expenditures	1,160,329	0	1,160,329	855,723	855,723	(304,606)
Total expenditures	6,626,085	271,911	6,897,996	7,808,806	8,560,309	1,662,313
Deficiency of revenues under expenditures	(440,656)	(43,091)	(483,747)	(1,386,691)	(2,138,194)	1,654,447
Other financing sources, net	472,156	39,513	511,669	86,000	86,000	683,669
Excess(deficiency) of revenues and other financing sources over(under) expenditures	31,500	(3,578)	27,922	(1,300,691)	(2,052,194)	2,338,116
Balance beginning of year	714,118	35,902	750,020	766,306	766,306	(16,286)
Balance end of year	\$ 745,618	32,324	777,942	(534,385)	(1,285,888)	2,321,830

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$751,503.

During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

WACO COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds				Total
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 60,883	36,762	97,645	72,566	170,211
Receivables:					
Property tax:					
Current year delinquent	0	759	759	6,176	6,935
Succeeding year	0	37,522	37,522	295,623	333,145
Accounts	1,817	0	1,817	0	1,817
TOTAL ASSETS	\$ 62,700	75,043	137,743	374,365	512,108
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 0	3,726	3,726	0	3,726
Accounts payable	857	0	857	0	857
Deferred revenue:					
Succeeding year property tax	0	37,522	37,522	295,623	333,145
Total liabilities	857	41,248	42,105	295,623	337,728
Fund balances:					
Reserved for debt service	0	0	0	78,742	78,742
Unreserved:					
Undesignated	61,843	33,795	95,638	0	95,638
Total fund balances	61,843	33,795	95,638	78,742	174,380
TOTAL LIABILITIES AND FUND BALANCES	\$ 62,700	75,043	137,743	374,365	512,108

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds				Total
	Student	Physical	Total		Other
	Activity	Plant and	Special	Debt	Nonmajor
		Equipment	Revenue	Service	Governmental
		Levy	Funds		Funds
REVENUES:					
Local sources:					
Local tax	\$ 0	36,739	36,739	298,992	335,731
Other	176,270	285	176,555	1,026	177,581
TOTAL REVENUES	176,270	37,024	213,294	300,018	513,312
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	162,612	0	162,612	0	162,612
Other expenditures:					
Facilities acquisition	0	4,951	4,951	0	4,951
Long-term debt:					
Principal	0	0	0	240,930	240,930
Interest and fiscal charges	0	0	0	132,420	132,420
TOTAL EXPENDITURES	162,612	4,951	167,563	373,350	540,913
Excess(deficiency) of revenues over(under) expenditures	13,658	32,073	45,731	(73,332)	(27,601)
Other financing sources(uses):					
Transfers in	0	0	0	82,064	82,064
Transfers out	0	(21,653)	(21,653)	0	(21,653)
Total other financing sources(uses)	0	(21,653)	(21,653)	82,064	60,411
Net change in fund balances	13,658	10,420	24,078	8,732	32,810
Fund balance beginning of year	48,185	23,375	71,560	70,010	141,570
Fund balance end of year	\$ 61,843	33,795	95,638	78,742	174,380

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Desktop publishing	\$ 733	0	0	733
Elementary vending	683	2,437	2,481	639
Elementary student leadership	511	0	0	511
After school program	4,293	90	0	4,383
6th grade overnight	260	1,013	1,101	172
Speech and drama	1,207	813	958	1,062
Spanish trip	1,858	733	2,195	396
Musical	0	3,097	2,542	555
Strings resale	353	708	442	619
Instrumental music	0	2,266	2,266	0
Vocal music	625	1,923	2,548	0
Booster club	(40)	3,726	3,867	(181)
Safe schools committee	169	51	0	220
Elementary activity	7,511	4,836	4,307	8,040
Secondary activity	1,307	13,725	15,032	0
High school annual	7,695	7,465	7,827	7,333
Class of 2006	135	0	135	0
Class of 2007	1,486	394	1,692	188
Class of 2008	0	13,672	11,749	1,923
Sr high student council	9,451	15,348	16,161	8,638
Leo club	441	1,470	1,405	506
After prom committee	536	7,460	7,349	647
National honor society	770	224	950	44
Football cheerleaders	169	2,593	903	1,859
Basketball cheerleaders	408	4,740	4,066	1,082
Drill team	463	1,293	1,493	263
Boys basketball	2,244	14,552	12,285	4,511
Football	1,308	34,451	25,528	10,231
Baseball	295	3,489	4,050	(266)
Boys track	0	2,031	2,031	0
Boys golf	0	272	272	0
Girls golf	0	239	239	0
Wrestling	0	5,043	5,043	0
Girls basketball	2,272	6,212	4,022	4,462
Volleyball	277	4,766	5,002	41
Softball	223	2,591	653	2,161
Girls track	0	481	481	0
Interest	34	806	390	450
Activity tickets	0	9,665	9,664	1
Vending machines	508	1,595	1,483	620
Total	\$ 48,185	176,270	162,612	61,843

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Music Boosters				
ASSETS				
Cash and investments	\$ 14,395	20,210	20,242	14,363
LIABILITIES				
Due to other groups	\$ 14,395	20,210	20,242	14,363
SEISC Super Conference				
ASSETS				
Cash and investments	\$ 23,065	268	0	23,333
LIABILITIES				
Due to other groups	\$ 23,065	268	0	23,333
Elementary PTO				
ASSETS				
Cash and investments	\$ 6,200	18,363	17,220	7,343
LIABILITIES				
Due to other groups	\$ 6,200	18,363	17,220	7,343
WACO Wrestling Club				
ASSETS				
Cash and investments	\$ 3,237	0	3,237	0
LIABILITIES				
Due to other groups	\$ 3,237	0	3,237	0
Athletic Boosters				
ASSETS				
Cash and investments	\$ 8,937	40,238	32,675	16,500
LIABILITIES				
Due to other groups	\$ 8,937	40,238	32,675	16,500
Totals - All Agency Funds				
ASSETS				
Cash and investments	\$ 55,834	79,079	73,374	61,539
LIABILITIES				
Due to other groups	\$ 55,834	79,079	73,374	61,539

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	2,443,103	2,379,679	2,143,288	2,141,503
Tuition		561,972	526,416	485,178	443,289
Other		278,346	285,685	265,047	234,952
Intermediate sources		5,452	0	0	200
State sources		2,688,842	2,547,656	2,288,938	2,229,048
Federal sources		207,714	183,599	173,991	186,798
Total	\$	6,185,429	5,923,035	5,356,442	5,235,790
Expenditures:					
Instruction:					
Regular instruction	\$	2,300,584	2,208,883	2,120,822	2,198,706
Special instruction		758,374	685,666	582,360	569,022
Other instruction		631,210	640,069	625,012	554,342
Support services:					
Student services		88,836	104,327	95,489	95,975
Instructional staff services		133,911	101,528	102,614	102,622
Administration services		738,744	673,115	668,083	546,735
Operation and maintenance of plant services		457,669	423,678	378,193	368,170
Transportation services		356,428	338,645	237,125	269,558
Non-instructional:					
Food service operations		0	0	62,516	49,007
Other expenditures:					
Facilities acquisitions		606,302	73,268	60,950	0
Long term debt:					
Principal		240,930	225,199	224,852	185,000
Interest and fiscal charges		132,420	151,514	173,963	182,187
AEA flow-through		180,677	166,328	157,060	160,044
Total	\$	6,626,085	5,792,220	5,489,039	5,281,368

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
WACO Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of WACO Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 25, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered WACO Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of WACO Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of WACO Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects WACO Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of WACO Community School District's financial statements that is more than inconsequential will not be prevented or detected by WACO Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by WACO Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WACO Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

WACO Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit WACO Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of WACO Community School District and other parties to whom WACO Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of WACO Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2008

WACO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-07 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions for all athletic and performance events. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - In the Fall of 2007, Waco implemented a pre-numbered ticket system at our extra-curricular gates. We then reconcile the tickets with the cash received.

Conclusion - Response accepted.

I-C-07 Check Signatures - We noted during our audit checks written from the Agency Funds did not have the signatures of the authorized checks signers, the Board President and Board Secretary. In addition, we noted a check with one signature.

Recommendation - The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa. The District should review disbursement procedures in place to ensure all checks written have two signatures, the Board President and Board Secretary.

Response - We will be requesting that the Waco Music Boosters, Waco Athletic Boosters and Waco PTO obtain their own tax identification numbers so that they can independently maintain their accounts.

Conclusion - Response accepted.

- I-D-07 Purchase Orders - We noted during our audit that the District doesn't always use purchase orders for disbursements in all funds.

Recommendation - Better internal control is achieved when pre-numbered purchase orders are used and the sequence is monitored. The District should review the purchase order system in place. Purchase orders provide approval to order, therefore, pre-numbered purchase orders should be approved by the administrator before the ordering of supplies takes place.

Response - Starting in the Fall of 2007, Waco has discontinued the use of purchase orders that are hand-written/hand-numbered. All purchases are now recorded with pre-numbered purchase orders through our electronic EREQ program.

Conclusion - Response accepted.

- I-E-07 Compensated Absences - During the year June 30, 2006 the District began accruing compensated absences for District employees without a policy regarding how payouts will occur and what criteria is required by employees to receive compensated absence benefits.

Recommendation - The District should develop a policy regarding how compensated absences payouts will occur and the criteria that needs to be met so there is consistency in how benefits are handled.

Response - The Waco Administration and Board of Education will discuss compensated absences and determine if there is a need to develop a policy.

Conclusion - Response accepted.

- I-F-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. These accounts include Elementary Vending, Vending Machines, Elementary Activity and Secondary Activity. These accounts appear to not be student run organization accounts and should be closed and transferred to the General Fund.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or

organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Donations from Target and Box Tops for Education recorded in the middle school and elementary funds. These donations do not specify the purpose other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

Book fairs were recorded in the middle school and elementary funds. The monies received from book fairs were used to purchase library books. Library books are not an allowable expenditure in the Student Activity Fund. Therefore, book fair revenue and expenditures need to be handled in the General Fund.

Vending accounts were recorded in the Student Activity Fund. The monies received from vending sales were used to purchase outdoor classroom supplies and a sound system. These expenditures appear to be questionable as Student Activity Fund expenditures.

There is an inactive account that should be review and closed. That account is Desktop Publications.

There was a Trees Forever Grant ran through the Student Activity Fund. This grant would more appropriately be run through the General Fund.

There is an Interest account. This account should be allocated among the Student Activity Funds that earned the interest. This allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

Response - Target, Box Tops, Trees Forever and Book Fair revenues are now (as of Fall 2007) being receipted into the General Fund. We are making a conscious effort to identify those revenues (donations) that are intended to be expended on instructional items and are depositing them into the General Fund. The Desktop Publication account will be closed. Historically, the interest account is distributed among the Student Activity Funds on an annual basis. The Waco Administration will review the receipts and expenditures that are recorded in the Student Activity Fund and be sure that the activity and maintenance is consistent with Iowa Administrative Code 281.12-6(1).

Conclusion - Response accepted.

WACO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amount budgeted in the other expenditures function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Massey, Custodian Owner of Mike's Service Stop	Supplies and Services	\$275

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the custodian do not appear to represent a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.